

Message Text

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42

ACTION NODS-00

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC IMMEDIATE 9155

S E C R E T SECTION 1 OF 2 QUITO 1526

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E.O. 11652: XGDS-1

TAGS: ENRG, PFOR, EC

SUBJECT: PETROLEUM: TEXACO-GULF PRICE ISSUE AND NATIONALIZATION

REF: QUITO 1397, QUITO 1059, STATE 043276

1. SUMMARY: LOCAL TEXACO AND GULF MANAGERS CALLED ON AMBASSADOR AND DCM AFTERNOON FEBRUARY 24 TO REPORT LATEST DEVELOPMENTS. THEY SAID THAT IN THEIR MOST RECENT DISCUSSIONS WITH RESOURCES MINISTER VARGAS AND SUPREME COUNCIL MEMBER, GENERAL DURAN, THE COMPANIES HAD STATED THAT THEY COULD NOT INVEST IN THEIR PREVIOUSLY SUGGESTED WORK PROGRAM WITHOUT A DECREASE IN GOVERNMENT TAKE, THAT DURAN HAD STATED SUCH A DECREASE WAS IMPOSSIBLE, AND THAT BOTH VARGAS AND DURAN SEEMED INTENT ON PURSUING A COURSE OF NATIONALIZATION. THE COMPANIES ARE STUDYING THE SITUATION AND THEIR PRINCIPALS WILL BE COMING TO QUITO IN THE NEXT FEW DAYS POSSIBLY WITH FURTHER PROPOSALS. THE COMPANY'S REPRESENTATIVES SEEM TO BELIEVE THAT NATIONALIZATION COULD GO AS SMOOTHLY HERE AS IN VENEZUELA, A PROPOSITION WE SERIOUSLY DOUBT. END SUMMARY.

2. ON FEBRUARY 24 TEXACO MANAGER MICHAEL MARTINEZ AND GULF MANAGER JACK O'BRIEN CALLED ON AMBASSADOR AND DCM TO BRING THEM UP TO DATE ON LATEST DEVELOPMENTS WITH RESPECT TO THE SITUATION OF THE CONSORTIUM IN ECUADOR.

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3. THEY SAID THAT THEY HAD MET ON FEBRUARY 11 WITH RE-

SOURCES MINISTER COL. RENE VARGAS, FINANCE MINISTER CESAR ROBALINO, AND CEPE MANAGER COL. PENIEROS WHICH TIME VARGAS HAD REPEATED THE REQUIREMENT FOR AN INCREASE IN GOVERNMENT TAKE OR NATIONALIZATION. THERE WAS A LENGTHY DISCUSSION OF THE GOVERNMENT FIGURES AND THE COMPANIES' FIGURES ON PRODUCTION COSTS AND MARKET CONDITIONS. THE COMPANIES' FIGURES WERE AIMED TO SHOW THAT TEXACO AND GULF REQUIRED A PRICE DECREASE IN ORDER TO CARRY OUT AN INVESTMENT PROGRAM IN ECUADOR NECESSARY FOR THE MAINTENANCE AND INCREASE OF PRODUCTION. LATER VARGAS REMAINED ALONE WITH THE TEXACO AND GULF MANAGERS AND ASKED, ALMOST DEMANDED, THAT THEY AGREE TO HIS TERMS OR PRESENT A LETTER INDICATING THEIR WILLINGNESS OR DESIRE TO BE NATIONALIZED. THE REPRESENTATIVES TEMPORIZED. VARGAS LEFT THIS MEETING IN AN ANGRY MOOD.

4. ON FEBRUARY 13 MARTINEZ AND O'BRIEN MET ALONE WITH FINANCE MINISTER ROBALINO IN HIS OFFICE WHERE THEY ONCE AGAIN EXPLAINED THEIR SITUATION. THEY LEFT THE MEETING WITH THE SENSE THAT ROBALINO AT LEAST WAS SYMPATHETIC TO THE COMPANIES' FINANCIAL REQUIREMENTS, ALTHOUGH HE EXPRESSED PUZZLEMENT AT THE CONFUSED INTERNATIONAL PRICING SITUATION.

5. LATER THAT SAME DAY MARTINEZ AND OOBRIEN MET AGAIN WITH VARGAS WHO ON THIS OCCASION OFFERED A COMBINATION OF A MODERATE PRICE RISE NOW AND A REDUCED PRICE RISE COMBINED WITH THE NEXT OPEC GENERAL PRICE RISE LATER IN THE YEAR. WHILE REJECTING RECEIVING ROYALTY IN KIND, VARGAS OFFERED VARIOUS WAYS TO SPEED TEXACO AND GULF AMORTIZATIONS. WITHOUT REPLYING, O'BRIEN AND MARTINEZ DEPARTED AND LEFT THE NEXT DAY FOR CONSULTATIONS WITH THEIR PRINCIPALS IN THE U.S.

6. FOLLOWING THEIR RETURN TO ECUADOR O'BRIEN AND MARTINEZ MET WITH VARGAS ON FEBRUARY 23. THEY TOLD HIM THAT THERE WAS NO WAY UNDER THE PRESENT PRICE STRUCTURE THEY COULD LIFT 219,000 OR EVEN 210,000 BARRELS A DAY AS REQUIRED BY A 1975 DECREE (75 QUITO 2486, 75 QUITO 2812, 75 QUITO 2815) WHICH THEY BELIEVE CONFISCATORY. THEY COULD INVEST IN A WORK PROGRAM OF INCREASED EXPLORATION

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AND DEVELOPMENT ONLY IF THE GOVERNMENT PRICE WERE REDUCED. VARGAS UNEXPECTEDLY NOW SAID THAT THERE MIGHT POSSIBLY BE A WAY TO REDUCE GOVERNMENT TAKE. BUT HE AGAIN INSISTED ON A LETTER FROM TEXACO AND GULF OUTLINING THEIR REQUIREMENTS AND PRESENTING THEIR ALTERNATIVES (I.E., NATIONALIZATION).

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S E C R E T SECTION 2 OF 2 QUITO 1526

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7. ON THE AFTERNOON OF THE SAME DAY MARTINEZ AND O'BRIEN MET WITH GENERAL DURAN WHO SAID THAT THERE COULD BE NO PRICE REDUCTION, THAT A PRICE REDUCTION WOULD MEAN "THEY WOULD HANG ME AND YOU, TOO." DURAN SAID THAT IT MIGHT BE BETTER TO GO BACK TO THE TEXACO-GULF OFFER TO NATIONALIZE. HE WOULD LIKE, THEREFORE, A LETTER SUCH AS SUGGESTED BY VARGAS TO SHOW THE USG AND OTHER POTENTIAL INVESTORS THAT NATIONALIZATION IS THE IDEA OF TEXACO AND GULF AND NOT THE GOVERNMENT OF ECUADOR FORCING ITS WILL UPON THE COMPANIES. GENERAL DURAN, FURTHER SETTING THE STAGE FOR NATIONALIZATION, REPORTEDLY TOLD MARTINEZ AND O'BRIEN THAT HE UNDERSTOOD THE COMPANIES HAD DAMAGED SOME OF THE FIELDS THROUGH CARELESS MANAGEMENT. HE SAID THAT AN AMOUNT WOULD HAVE TO BE TAKEN OFF FOR THE PRODUCTION LOST BECAUSE OF THIS FACTOR. IT IS NOT WITHOUT INTEREST THAT DURING THE COURSE OF THIS MEETING GENERAL DURAN REPEATEDLY RETURNED TO THE THEME THAT HE WAS UNJUSTLY ACCUSED OF BEING A COMMUNIST. HE REFERRED SPECIFICALLY TO FORMER MINISTER GENERAL VASCONEZ' DENOUNCEMENT OF HIM AS A COMMUNIST WHEN THE RODRIGUEZ LARA GOVERNMENT FELL. THE GULF REPRESENTATIVE STATED THAT IT WAS CLEAR TO HIM THAT "DURAN HAD A COMPLEX ON THIS." DURAN CITED INTER ALIA THE FACT THAT HE (SIC) WAS PLANNING TO SEND MINISTER VARGAS' COMMUNIST PETROLEUM ADVISERS, ARAUZ AND CABEZAS, OUT OF THE COUNTRY AS PROOF THAT HE WAS NOT A COMMUNIST.

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8. TEXACO VICE PRESIDENT MAX CRAWFORBIIS EXPECTED TO ARRIVE FEBRUARY 25 TO TAKE SOUNDINGS. THE AMBASSADOR ASKED THAT HE BE SURE TO GET IN TOUCH WITH HIM. SHIELDS OF TEXACO AND WYCHE OF GULF ARE EXPECTED TO ARRIVE A FEW DAYS LATER. THE AMBASSADOR ASKED THAT HE BE INFORMED BEFORE TEXACO AND GULF DECIDE TO SEND THE REQUESTED LETTER TO THE GOVERNMENT OF ECUADOR. THE DCM SUGGESTED IT WOULD BE USEFUL IF SHIELDS OR WYCHE SAW THE AMBASSADOR BEFORE THEY SAW THE SUPREME COUNCIL.

9. COMMENT: MARTINEZ AND O'BRIEN DIFFER ON DURAN'S ROLE, AS THEY SEEM TO DO ON THE FUTURE OF THE CONSORTIUM OPERATIONS HERE. O'BRIEN DOES NOT THINK THAT VARGAS AND DURAN HAVE BEEN WORKING TOGETHER WITH THE OBJECTIVE OF NATIONALIZATION; STATED THAT GULF IS NOT PREPARED TO CONTINUE OPERATIONS AND CERTAINLY NOT TO INVEST AT THE PRESENT PRICE; AND SAID FLATLY THAT GULF WANTS OUT, CLEARLY BELIEVING THAT ANY NATIONALIZATION OF THE INDUSTRY HERE WOULD PROCEED AS SMOOTHLY AS IT HAS IN VENEZUELA. MARTINEZ, ON THE OTHER HAND, SEES DURAN AS ONE OF THE VILLAINS OF THE PICE; BELIEVES THAT HE HAS BEEN WORKING WITH IF NOT ACTUALLY INSTRUCTING VARGAS; SAID TEXACO-GULF COULD CONTINUE OPERATIONS AND MAKE A MODEST INVESTMENT AT THE CURRENT PRICE; AND DOES NOT GIVE THE IMPRESSION OF BEING AS DESIROUS OF NATIONALIZATION AS GULF'S O'BRIEN.

10. WE CAME BACK ON SEVERAL OCCAIONS TO THE QUESTION OF THE LETTER REQUESTED FROM TEXACO-GULF BY BOTH VARGAS AND DURAN. O'BRIEN SEEMS TO HAVE NO GREAT PROBLEM WITH FURNISHING SUCH A LETTER; MARTINEZ IS HESITANT. THEY BOTH ASKED MY OPINION. I REPLIED THAT IN MY PERSONAL VIEW THE FURNISHING OF SUCH A LETTER AT THIS JUNCTURE COULD WELL PLAY DIRECTLY INTO THE HANDS OF THOSE WHO WISHED TO NATIONALIZE THE INDUSTRY. I SAID THAT I HAD NO INDICATION THAT THIS WAS THE GOE REPEAT GOE POLICY, ALTHOUGH CERTAIN MEMBERS OF THE GOE MIGHT INDEED FAVOR IT. I SPECIFICALLY ASKED THAT IF THEY DECIDED TO DELIVER R SUCH A LETTER I BE INFORMED IN ADVANCE. WHEN QUERIED AS TO MY VIEW OF DURAN, I LIMITED MYSELF TO THE COMMENT THAT I HAD HEARD REPORTS THAT HE HAD AUTHORIZED A SEARCH ABROAD FOR CAPTIAL NECESSARY TO BUY A FURTHER SHARE OF THE COMPANIES.

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11. TEXACO-GULF'S MOST RECENT STANCE, NAMELY REQUIRING A DECREASE IN PRICE IN ORDER TO GO THROUGH WITH THE REQUIRED INVESTMENT PROGRAM, IS NEW. I MUST TENTATIVELY, AND RE-

LUCTANTLY, CONCLUDE THAT THIS REPRESENTS A STIFFENING IN
THEIR POSITION AND WOULD
SEEM TO INDICATE THAT THE COMPANIES' STAND ON PRICING IS
SO DETERMINED THAT THEY ARE WILLING TO BE NATIONALIZED
IF THEY DO NOT WIN ON THIS ISSUE.

12. MY FURTHER COMMENTS AND RECOMMENDATIONS WILL FOLLOW
BY SEPTEL.
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